

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Sharon L. Vargo</i>	Printed Name		License Number	

# **Grand Traverse Metro Fire Department**

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**Financial Report  
with Supplemental Information  
December 31, 2006**

# **Grand Traverse Metro Fire Department**

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## **Contents**

<b>Report Letter</b>	<b>I</b>
<b>Management's Discussion and Analysis</b>	<b>2-6</b>
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Statement of Revenue, Expenditures, and Changes in Fund Balances	10
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Notes to Financial Statements	12-21
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule - General Fund	22
Budgetary Comparison Schedule - Major Public Improvement Fund	23
Note to Required Supplemental Information	24



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## Independent Auditor's Report

To the Board  
Grand Traverse Metro Fire Department

We have audited the accompanying financial statements of the governmental activities and each major fund of the Grand Traverse Metro Fire Department (the "Fire Department") as of and for the year ended December 31, 2006, which collectively comprise the Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fire Department as of December 31, 2006 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

April 27, 2007

# **Grand Traverse Metro Fire Department**

## **Management's Discussion and Analysis**

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Our discussion and analysis of the Grand Traverse Metro Fire Department's financial performance provides an overview of the Fire Department's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Fire Department's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2006:

- Contributions from local governmental units increased by approximately \$145,000 this year. In addition, the General Fund transferred approximately \$400,000 in the current year to the Public Improvement Fund, versus \$807,000 in the prior year.
- Total net assets related to the Fire Department's governmental activities increased by approximately \$683,000. The unrestricted portion of net assets increased by approximately \$65,000.
- The Fire Department continued a long-term public improvement initiative by setting aside an additional \$400,000 in the Public Improvement Fund this year. In combination with the initial \$807,000 transfer last year, the Public Improvement Fund was able to pay off approximately \$425,000 of debt during 2006.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Fire Department as a whole and present a longer-term view of the Fire Department's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Fire Department's operations in more detail than the government-wide financial statements by providing information about the Fire Department's most significant funds.

# Grand Traverse Metro Fire Department

## Management's Discussion and Analysis (Continued)

### The Fire Department as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year.

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current assets	\$ 988,953	\$ 918,038
Noncurrent assets	3,424,837	3,224,669
Total assets	4,413,790	4,142,707
<b>Liabilities</b>		
Current liabilities	91,986	293,641
Long-term liabilities	-	210,000
Total liabilities	91,986	503,641
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	3,396,085	2,777,959
Unrestricted	925,719	861,107
Total net assets	<u>\$ 4,321,804</u>	<u>\$ 3,639,066</u>

The Fire Department's combined net assets increased 18.8 percent from a year ago, increasing from \$3,639,066 to \$4,321,805.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by \$64,612. This represents an increase of approximately 7.5 percent. The current level of unrestricted net assets stands at \$925,719, or about 54.2 percent of expenditures. This is within the targeted range set by the Fire Department board during its last budget process.

# Grand Traverse Metro Fire Department

## Management's Discussion and Analysis (Continued)

### The Fire Department as a Whole (Continued)

The following table shows, in a condensed format, the net assets during the current year and as compared to the prior year.

	Governmental Activities	
	2006	2005
<b>Revenue</b>		
Program revenue - Charges for services	\$ 181,608	\$ 249,140
Capital grants and contributions	172,583	-
General revenue:		
Contribution from local governments	1,880,131	1,734,821
Unrestricted investment earnings	54,304	23,728
Other revenue	68,015	4,927
Total revenue	2,356,641	2,012,616
<b>Program Expenses</b>		
Public safety:		
Personnel	921,049	818,723
Commodities	76,276	56,344
Contractual services	40,750	49,295
Depreciation expense	231,783	240,335
Other charges	399,416	328,292
Interest on long-term debt	4,629	6,375
Total program expenses	1,673,903	1,499,364
<b>Change in Net Assets</b>	<b>\$ 682,738</b>	<b>\$ 513,252</b>

### Governmental Activities

The Fire Department's total governmental revenues increased by approximately \$344,000. The increase, which represents 17.1 percent, was primarily due to the continuing increases in all revenue areas, including contributions from local governments, building permits, interest income, and donated property.

Expenses increased by approximately \$175,000. The 11.6 percent increase was primarily due to the hiring of additional fire inspectors, higher health care costs, increase in fuel costs, and higher vehicle repair costs due to the aging fleet.

# **Grand Traverse Metro Fire Department**

## **Management's Discussion and Analysis (Continued)**

### **The Fire Department's Funds**

Our analysis of the Fire Department's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Fire Department as a whole. The Fire Department's board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as contributions from local governments based on their special tax millages. The Fire Department's major funds for 2006 include the General Fund and the Public Improvement Fund.

The General Fund pays for most of the Fire Department's governmental services. The most significant is fire personnel, which incurred expenses of approximately \$915,000 in 2006.

The Public Improvement Fund records funds designated by the board and transferred from the General Fund. The amount transferred from the General Fund is supported by a capital improvement plan, including specific capital outlay approved by the Fire Department's board. During the current year, this amounted to \$400,000.

### **General Fund Budgetary Highlights**

Over the course of the year, the Fire Department made budget amendments to line items within cost centers. This resulted in changes to all cost centers during the year. A \$71,900 reduction in personnel costs was primarily the result of delaying the hiring of an Assistant Chief until the fourth quarter of 2006. An \$18,000 decrease in contractual services was the result of lower than planned legal fees and travel expenses. A \$227,060 increase in capital outlay/repairs resulted from higher than planned vehicle repairs and the purchase of SCBA mask upgrades by the Fire Department made possible through a federal grant received in 2006. Additional cost center budget changes were a decrease in commodities of \$8,000, decrease in other charges of \$4,000, decrease in contingency of \$7,916, and an increase in transfer to the Public Improvement Fund of \$150,000. The General Fund's fund balance increased from \$317,679 a year ago to \$394,985 at December 31, 2006.

### **Capital Asset and Debt Administration**

At the end of 2006, the Fire Department had \$3,396,086 invested in a broad range of capital assets, including buildings, furnishings, fire equipment, and vehicles. In September 2005, the Fire Department began a remodel construction project for a new fire station. The remodel project was bid out to contractors in September 2005. However, the bids came in nearly \$200,000 over budget. As such, the board did not approve the bids and has put the project on hold awaiting further decisions regarding the Fire Department's strategic plan. The Fire Department is currently working with an architect to improve the design of the station remodel and hopes to have the project completed in 2007.



# **Grand Traverse Metro Fire Department**

## **Management's Discussion and Analysis (Continued)**

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### **Economic Factors and Next Year's Budgets**

The 2007 calendar year brings with it new challenges for the Fire Department.

The Fire Department continues to embark on an ambitious strategic plan. The plan calls for three new stations to be built in the next 10 years. Fire apparatus will need to be purchased and housed in these stations. Full-time staffing at each of our stations will be required in the near future. The implementation of this plan will necessitate much discussion on the financing of this expansion. The Fire Department's budget for next year calls for an increase of contributions from local governments. The member townships are looking for alternatives, including an increase in millages, to help pay for this expansion.

On March 28, 2006, the outstanding debt of \$425,000, plus interest, was paid off by the Fire Department. This payoff was possible as excess funds became available due to the delay in monies spent for the remodel project for the new fire station. The Fire Department plans to obtain partial financing to pay for the station remodel, once the board has approved the revised plans.

The Fire Department has presented to each of the townships plans for reorganizing under Michigan Public Act 57 to become a Fire Authority. The townships are currently in the process of discussing the specifics of the reorganization and the impact this reorganization would have on their respective governments as well as the local community. It is the Fire Department's hope that a decision regarding the reorganization can be made by the end of 2007.

In June 2007, the Fire Department will be taking delivery of a new American LeFrance fire truck. At that time, the Fire Department plans to enter into an agreement with a bank to finance \$368,061 in order to purchase this new truck.

### **Contacting the Fire Department's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Fire Department's finances and to show the Fire Department's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Fire Department office.

# Grand Traverse Metro Fire Department

## Statement of Net Assets December 31, 2006

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 833,207
Receivables - Net	59,891
Prepaid costs	95,855
Investment in joint venture	28,752
Capital assets - Net:	
Depreciable assets	2,195,768
Nondepreciable assets	<u>1,200,317</u>
Total assets	4,413,790
<b>Liabilities</b>	
Accounts payable	39,042
Accrued and other liabilities	16,367
Compensated absences - Due within one year	<u>36,577</u>
Total liabilities	<u>91,986</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	3,396,085
Unrestricted	<u>925,719</u>
Total net assets	<u><b>\$ 4,321,804</b></u>

# Grand Traverse Metro Fire Department

## Statement of Activities Year Ended December 31, 2006

				Net (Expense) Revenue and Changes in Net Assets
		Program Revenues		
		Charges for	Capital Grants	Governmental
	Expenses	Services		Activities
<b>Functions/Programs</b>				
Primary government -				
Governmental activities:				
General government				
Public safety:				
Personnel	\$ 921,049	\$ 169,333	\$ 172,583	\$ (579,133)
Commodities	76,276	-	-	(76,276)
Contractual services	40,750	-	-	(40,750)
Depreciation expense	231,783	-	-	(231,783)
Other	399,416	12,275	-	(387,141)
Interest on long-term debt	4,629	-	-	(4,629)
Total primary government	<u>\$ 1,673,903</u>	<u>\$ 181,608</u>	<u>\$ 172,583</u>	(1,319,712)
General revenues:				
Contribution from local governmental units				1,880,131
Unrestricted investment earnings				54,304
Miscellaneous				68,015
Total general revenues				<u>2,002,450</u>
<b>Change in Net Assets</b>				682,738
<b>Net Assets - Beginning of year</b>				<u>3,639,066</u>
<b>Net Assets - End of year</b>				<u>\$ 4,321,804</u>

# Grand Traverse Metro Fire Department

## Governmental Funds Balance Sheet December 31, 2006

	General	Public Improvement	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 213,643	\$ 619,564	\$ 833,207
Receivables - Net	59,891	-	59,891
Prepaid costs	95,855	-	95,855
Due from other funds	81,005	-	81,005
Total assets	<u>\$ 450,394</u>	<u>\$ 619,564</u>	<u>\$ 1,069,958</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 39,042	\$ -	\$ 39,042
Accrued and other liabilities	16,367	-	16,367
Due to other funds	-	81,005	81,005
Total liabilities	55,409	81,005	136,414
<b>Fund Balances</b>			
Reserved for prepaid costs	95,855	-	95,855
Unreserved, reported in:			
General Fund	299,130	-	299,130
Special Revenue Funds	-	538,559	538,559
Total fund balances	<u>394,985</u>	<u>538,559</u>	<u>933,544</u>
Total liabilities and fund balances	<u>\$ 450,394</u>	<u>\$ 619,564</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Investment in joint venture used in governmental activities that is not financial resources and is not reported in the funds	28,752
Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,396,085
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(36,577)
Net assets of governmental activities	<u>\$ 4,321,804</u>

# Grand Traverse Metro Fire Department

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2006

	General	Public Improvement	Total Governmental Funds
<b>Revenue</b>			
Contribution from local governmental units	\$ 1,880,131	\$ -	\$ 1,880,131
Licenses and permits	76,237	-	76,237
Federal grants	172,583	-	172,583
Interest and rentals	38,326	15,978	54,304
Other	142,370	-	142,370
Total revenue	2,309,647	15,978	2,325,625
<b>Expenditures</b>			
Current:			
Personnel	914,964	-	914,964
Commodities	76,276	-	76,276
Contractual services	40,750	-	40,750
Other charges	368,088	-	368,088
Capital outlay/repairs	463,279	-	463,279
Debt service	-	436,004	436,004
Total expenditures	1,863,357	436,004	2,299,361
<b>Excess of Revenue Over (Under)</b>			
<b>Expenditures</b>	446,290	(420,026)	26,264
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	400,000	400,000
Transfers out	(400,000)	-	(400,000)
Sales of capital assets	31,016	-	31,016
Total other financing sources (uses)	(368,984)	400,000	31,016
<b>Net Change in Fund Balances</b>	77,306	(20,026)	57,280
<b>Fund Balances - Beginning of year</b>	317,679	558,585	876,264
<b>Fund Balances - End of year</b>	<u>\$ 394,985</u>	<u>\$ 538,559</u>	<u>\$ 933,544</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Grand Traverse Metro Fire Department

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2006**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>57,280</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions	453,169
Net book value of disposed assets	(28,260)
Current year allocation of depreciation expense	(231,783)

Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	425,000
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Investment in joint venture gain reported in the statement of activities does not provide current financial resources and is not reported as revenue in the governmental funds	7,042
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Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(6,085)
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Accrued interest payable is not included as a liability in governmental funds	6,375
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<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>682,738</u></b>
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# **Grand Traverse Metro Fire Department**

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## **Notes to Financial Statements December 31, 2006**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Grand Traverse Metro Fire Department (the "Fire Department") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Fire Department.

#### **Reporting Entity**

The Fire Department is a joint venture between Acme, East Bay, and Garfield Townships. The Fire Department's operating expenses are subsidized annually by millages levied in each township.

The Fire Department is governed by an appointed three-member board consisting of the supervisors of the sponsoring townships. The fire fighting budget and expenditures are approved by the board. The accompanying financial statements represent the activities of the Fire Department.

In the event that a member township withdraws or is expelled from the Grand Traverse Metro Fire Department, that township shall have no right to recover any monies previously paid into the Grand Traverse Metro Fire Department nor will they be entitled to any equipment purchased, nor in any real property which was obtained for the administration of the Grand Traverse Metro Fire Department.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Township subsidies and other items not properly included among program revenues are reported instead as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

# Grand Traverse Metro Fire Department

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## Notes to Financial Statements December 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: contributions from local governmental units, plan reviews, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The Fire Department reports the following major governmental funds:

**General Fund** - The General Fund is the Fire Department's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Public Improvement Fund** - The Public Improvement Fund is where the Fire Department has appropriated funds for future capital outlay to improve and expand the Fire Department.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include charges for plan reviews and inspections of related buildings. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all contributions from local governmental units.



# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables** - All trade and intergovernmental receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include buildings, furnishings, fire equipment, and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Fire Department as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	7 to 50 years
Vehicles	5 to 15 years
Office furnishings	5 to 12 years
Other tools and equipment	5 to 10 years

**Compensated Absences (Vacation and Personal Days)** - It is the Fire Department's policy to permit employees to accumulate earned but unused vacation pay and personal days benefits. Both vacation pay and personal days are accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. During 2006, the net change was \$6,085.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Fire Department oversees building construction and fire code compliance in East Bay and Acme Townships and fire code compliance in Garfield Township in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Fire Department charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2006 is as follows:

Accumulated balance at January 1, 2006	\$ -
Current year building permit revenue	76,237
Related expenses - Direct costs	<u>(76,237)</u>
Accumulated balance at December 31, 2006	<u>\$ -</u>

**Deposit/Investment Policy** - The written deposit/investment policy, adopted by the board in 1998, is not in compliance with the state law under Public Act 196 of 1997. In addition, GASB No. 40, *Deposits and Investment Risk Disclosures*, recommends that the deposit/investment policy address any deposit and investment-related risk the governmental unit is subject. If the policy does not cover that risk, GASB No. 40 requires that this fact be disclosed. Because the Fire Department has uninsured deposits, a policy should be created to address the acceptable limits of uninsured funds. Current deposits held by the Fire Department are not considered illegal under the state law at December 31, 2006.

# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2006

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Fire Department has designated four banks for the deposit of its funds. The Fire Department's deposits and investments are in accordance with statutory authority.

The Fire Department's cash is subject to custodial credit risk of bank deposits, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Fire Department's deposits may not be returned to it. The Fire Department does not have a deposit policy for custodial credit risk. At year end, the Fire Department had \$451,404 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Fire Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Fire Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Receivables

Receivables as of year end for the Fire Department's General Fund are as follows:

Receivables:

Accounts	\$ 4,731
Intergovernmental	<u>55,160</u>
Net receivables	<u>\$ 59,891</u>

# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2006

### Note 5 - Capital Assets

Capital asset activity of the Fire Department's governmental activities was as follows:

<b>Governmental Activities</b>	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$ 383,451	\$ 32,680	\$ -	\$ 416,131
Construction in progress	<u>784,186</u>	<u>-</u>	<u>-</u>	<u>784,186</u>
Subtotal	1,167,637	32,680	-	1,200,317
Buildings and improvements	820,230	-	-	820,230
Vehicles	2,723,137	223,970	22,709	2,924,398
Office furnishings	45,125	-	-	45,125
Other tools and equipment	<u>411,091</u>	<u>196,519</u>	<u>70,650</u>	<u>536,960</u>
Subtotal	3,999,583	420,489	93,359	4,326,713
Accumulated depreciation:				
Buildings and improvements	162,411	21,846	-	184,257
Vehicles	1,568,487	157,745	22,709	1,703,523
Office furnishings	30,682	4,484	-	35,166
Other tools and equipment	<u>202,681</u>	<u>47,708</u>	<u>42,390</u>	<u>207,999</u>
Subtotal	<u>1,964,261</u>	<u>231,783</u>	<u>65,099</u>	<u>2,130,945</u>
Net capital assets being depreciated	<u>2,035,322</u>	<u>188,706</u>	<u>28,260</u>	<u>2,195,768</u>
Net capital assets	<u>\$ 3,202,959</u>	<u>\$ 221,386</u>	<u>\$ 28,260</u>	<u>\$ 3,396,085</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities - Public safety	<u><u>\$ 231,783</u></u>
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# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2006

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from Other Funds</b>		
General Fund	Public Improvement Fund	\$ <u>81,005</u>

These balances result from the time lag between the dates that reimbursable expenditures occur.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Public Improvement Fund	\$ <u>400,000</u>

The transfers from the General Fund to the Public Improvement Fund represents the movement of resources to be used to finance current and future public improvements.

# Grand Traverse Metro Fire Department

## Notes to Financial Statements December 31, 2006

### Note 7 - Long-term Debt

Installment purchase agreements are direct obligations and pledge the full faith and credit of the Fire Department.

The Fire Department has the following long-term debt outstanding as of December 31, 2006:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Installment purchase agreements -		\$120,000 -					
Purchase Money Mortgage:	4.5%	\$125,000					
Amount of issue: \$245,000			\$ 245,000	\$ -	\$ (245,000)	\$ -	\$ -
Maturing through July 1, 2007							
		\$20,000 -					
Land contract:	4.5%	\$110,000					
Amount of issue: \$180,000			180,000	-	(180,000)	-	-
Maturing through July 1, 2007							
Total governmental activities			<u>\$ 425,000</u>	<u>\$ -</u>	<u>\$ (425,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Compensated absences			<u>\$ 30,492</u>	<u>\$ 6,085</u>	<u>\$ -</u>	<u>\$ 36,577</u>	<u>\$ 36,577</u>

Total interest expense for the year was \$4,629.

### Note 8 - Risk Management

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Fire Department has purchased commercial insurance for employee injuries and medical benefits, and participates in the Michigan Township Participating Plan for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Township Participating Plan program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the plan that the plan uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Fire Department.

# Grand Traverse Metro Fire Department

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## Notes to Financial Statements December 31, 2006

### **Note 9 - Defined Contribution Pension Plans**

The Fire Department provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the Fire Department, the Fire Department contributed 14 percent from January through November 2006 and 16.2 percent for December 2006 of the full-time employees' gross earnings. Employee contributions for each employee plus interest allocated to the employee's account are fully vested upon early retirement, termination of service, death, disability, or normal retirement.

The Fire Department's total payroll during the current year was \$902,785. The current year contribution was calculated based on covered payroll of \$555,176, resulting in an employer contribution of \$78,799 and required employee contributions of \$34,421.

The Fire Department also offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to all employees. The plan is administrated by ING Life Insurance and Annuity Company. The plan allows employees to defer a portion of their salary until the employees' death, termination, retirement, or disability. During the year ended December 31, 2006, employees contributed \$16,806.

### **Note 10 - Other Postemployment Benefits**

The Fire Department has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Fire Department pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Fire Department's group rates. As of December 31, 2006, one retiree is eligible for postemployment health benefits. For the year ended December 31, 2006, the Fire Department paid \$13,729 in postemployment retirement benefits. The Fire Department obtains health care coverage through private insurers.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

# **Grand Traverse Metro Fire Department**

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## **Notes to Financial Statements December 31, 2006**

### **Note 11 - Joint Venture**

The Fire Department entered into an agreement, creating the Grand Traverse County Fire Administrative Board, effective January 1, 1981. This continues on a year-to-year basis by mutual agreement with Grand Traverse County and Grand Traverse Rural Fire Department. The Fire Department's equity interest is 38.0 percent at December 31, 2006. This equity interest is adjusted annually and the 2006 equity interest balance is \$28,752.

The Fire Department also provides payroll processing services for the joint venture. At December 31, 2006, \$14,367 was due from the joint venture.



## **Required Supplemental Information**

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# Grand Traverse Metro Fire Department

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Contribution from local governmental units	\$ 1,880,131	\$ 1,880,131	\$ 1,880,131	\$ -
Federal grants	-	176,544	172,583	(3,961)
Licenses and permits	25,000	67,700	76,237	8,537
Interest and rentals	20,000	37,000	38,326	1,326
Other	<u>165,000</u>	<u>196,000</u>	<u>173,386</u>	<u>(22,614)</u>
Total revenue	2,090,131	2,357,375	2,340,663	(16,712)
<b>Expenditures</b>				
Public safety:				
Personnel	1,041,030	969,130	914,964	(54,166)
Commodities	88,200	80,200	76,276	(3,924)
Contractual services	65,400	47,400	40,750	(6,650)
Other charges	374,801	370,801	368,088	(2,713)
Contingency	10,200	2,284	-	(2,284)
Capital outlay/repairs	260,500	487,560	463,279	(24,281)
Transfers to other funds	<u>250,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>2,090,131</u>	<u>2,357,375</u>	<u>2,263,357</u>	<u>(94,018)</u>
<b>Net Change in Fund Balance</b>	-	-	77,306	77,306
<b>Fund Balance - Beginning of year</b>	<u>317,679</u>	<u>317,679</u>	<u>317,679</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 317,679</u>	<u>\$ 317,679</u>	<u>\$ 394,985</u>	<u>\$ 77,306</u>

# Grand Traverse Metro Fire Department

## Required Supplemental Information Budgetary Comparison Schedule Major Public Improvement Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Interest income	\$ 1,800	\$ 1,800	\$ 15,978	\$ 14,178
Transfer from other funds	250,000	400,000	400,000	-
Total resources (inflows)	251,800	401,800	415,978	14,178
<b>Expenditures</b>				
Interest expense	16,000	16,000	11,004	(4,996)
Contingency	1,800	1,800	-	(1,800)
Capital outlay/repairs	234,000	384,000	-	(384,000)
Debt payment	-	-	425,000	425,000
Total charges to appropriations	251,800	401,800	436,004	34,204
<b>Net Change in Fund Balance</b>	-	-	(20,026)	(20,026)
<b>Fund Balance - Beginning of year</b>	558,585	558,585	558,585	-
<b>Fund Balance - End of year</b>	<u>\$ 558,585</u>	<u>\$ 558,585</u>	<u>\$ 538,559</u>	<u>\$ (20,026)</u>

# Grand Traverse Metro Fire Department

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## Note to Required Supplemental Information Year Ended December 31, 2006

### Note - Budgetary Information

**Budgetary Information** - The annual budget is prepared by management and adopted by the Fire Department board; subsequent amendments are approved by the Fire Department board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and the Public Improvement Fund, except for the practice of budgeting transfers and debt issuance as revenues and expenditures versus other financing sources/uses. Budgets were adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Fire Department board is included in the required supplemental information.

During the year, the Fire Department incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Public Improvement Fund - Debt Payment	\$ -	\$ 425,000



April 27, 2007

To the Fire Department Board  
Grand Traverse Metro Fire Department  
Traverse City, Michigan

Dear Fire Department Board:

In planning and performing our audit of the financial statements of Grand Traverse Metro Fire Department as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Fire Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

**Recording Debt Payment** - The Fire Department did not correctly record the \$425,000 debt repayment as an expenditure in the current year. It was incorrectly recorded as a reduction of an accrued liability that was eliminated in the 2005 financial statements.

This communication is intended solely for the information and use of management, the Fire Department board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

*Sharon L. Vargo*  
Sharon L. Vargo